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SIPDIS

STATE FOR AF/S

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USDOC FOR AHILIGAS

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SENSITIVE

E.O. 12958: N/A

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SUBJECT: MAY MONTHLY ECONOMIC WRAP-UP: MOZAMBIQUE

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FOREIGN INVESTMENT

1. (U) A major Zimbabwean horticultural company is shifting its operations to Mozambique and Zambia as a result of land seizure in Zimbabwe. Ousted by the Zimbabwean Government,

Kondozi Company will be granted 800 hectares of land in the Manica Province by the GRM, according to AIM Reporting. Hundreds of Zimbabwean farmers are already working in this province, overwhelmingly in the agricultural sector. Majority shareholder, Edwin Moyo, said his firm would buy a further 2,000 hectares in Gwembe Valley, Zambia. The company will operate with advanced irrigation equipment and is financed by big names such as the South African Industrial Development Corporation (IDC) and Barclays Bank International.

MACROECONOMICS

2. (U) The leaders of the New Partnership for Africa's Development (NEPAD) convened in Maputo to assess NEPAD's progress and acknowledge the challenges that lie ahead for the continent. Representatives from twenty African countries attended the meeting of the NEPAD Implementation Committee to discuss, among other things, poverty eradication and achievement of the UN's Millennium Development Goals. Improving Africa's infrastructure and food security are high priorities for the NEPAD group.

PORTS, ROADS, AND RAILWAYS

3. (SBU) With the April announcement that Rites and Ircon, a private Indian consortium, was awarded reconstruction and management of the Sena Railway Line (leading from the coast to the extensive coal deposits at Moatize), as well as management of the Machipanda Line (leading from the coast to Zimbabwe), pol/econoff and USAID paid a visit to the Ports and Railways Company (CFM) to speak with key contacts. The GRM, through CFM, will be in negotiations with the Indian group to determine subcontract arrangements, management details, and sign the formal contract next month. Also, later in June, the World Bank will appraise the agreed-upon terms, and assuming economic feasibility, the project will be sent to the World Bank for a \$120 million loan/IFC/MIGA package approval in July. Mission officers think this timetable is optimistic, considering the hesitation the GRM places on big infrastructure and privatization deals. On the other hand, unlike other projects, reconstruction of the Sena Line has huge political impetus and has already been treated as a top governmental priority. CFM board member and civil engineer, Domingos Bainha, asserted that Sena Line reconstruction would take three and a half years. Important products likely to be carried on the 600km line are: limestone, cotton, sugar, wood, and eventually, steam and coking coal from the Moatize mines. Bainha also noted that the Sena Line would carry passenger traffic. According to CFM, the line will increase employment (creating 1500 jobs at the start of construction), transport goods and people, spur economic development, and revive and grow small towns in the central provinces. CFM will be a 49% shareholder in the construction and management of the line. COMMENT: The Mission believes there are several economic and financial inconsistencies with the push forward to fund Sena Line reconstruction. With a low tonnage capacity, CFM expects 1 million tons of coal/year to be transported and exported, once reconstruction is complete. Car size and axle load, as well as limited capacity at the shallow and muddy port of Beira, will not allow for rapid expansion of coal exports. This figure pales in comparison to the 80 million tons of coal/year that is shipped out of the closest regional competing port, Richard's Bay, South Africa. USG questions the economic viability of the Sena Line, especially considering the overwhelming financial cost to rebuild the infrastructure. There are alternatives for transporting the Moatize coal that may be more economically sound; including construction of a spur to the Nacala Railway Line (in the North) and use of the natural deep water port of Nacala, or barging coal along the Zambeze River (in the central region)

to load at sea. END COMMENT.

ENERGY

14. (U) With an award out for reconstruction on the Sena Railway Line, conversation about investors for the Moatize coalmines is increasing. The Minister of Mineral Resources and Energy, Castigo Langa, announced that the GRM is preparing to attract possible investors for this project by releasing a tender at the beginning of June. Several international mining firms have shown interest in competing for the coalmines by conducting evaluations on mine capacity and potential. One such group is Companhia do Vale do Rio Doce, a well-known Brazilian mining firm. The GRM estimates that the mine has the capacity to supply up to 10 billion tons of coal, but world export of the product depends on a functional railway line to the coast, which may take another three and a half years to complete (Sena Line).

AGRICULTURE

15. (U) In the present agricultural campaign, Mozambique is expected to harvest over two million tons of main crops, a target set by the Ministry of Agriculture and Rural Development (MADER).

16. (U) In 1999, MADER launched PROAGRI, the GRM's sector wide investment program, which counts with broad donor support including that of USAID. One of the overarching objectives of the program is to strengthen the public sector's ability to perform its core functions in a market economy: policy making; efficient delivery of some key agricultural support services; and the establishment of framework for the sustainable and transparent management of natural resources. Although new systems for financial management and investment planning were successfully introduced, the Ministry has lagged on the more structural reforms required in staffing and ministry re-organization. Further, the consistently tardy transfer of budget resources from the Ministry of Planning and Finance has compromised the achievement of field-based results, with very few farmers registering improvements in the quality and relevance of agricultural support services delivered in the field since the launch of PROAGRI. According to the Vice-Minister of Agriculture, Joao Carrilho, access to credit and lack of infrastructure that allow farmers to bring products to market are major obstacles for small producers in Mozambique. At present, a multi-donor appraisal team is reviewing the proposal for the second five-year tranche of PROAGRI, or PROAGRI II. The proposal under review introduces some changes that will increase effective decentralization to provincial and district levels and ensure a more results oriented program. A new institutional configuration that streamlines functional responsibilities is also proposed. USAID will continue supporting this important process but will increasingly tie its budget support to specific policy and agricultural activities.

17. (U) According to the National Institute of Sugar (INA), sugar production will rise 20 percent in 2004. This expectation is gleaned from the per hectare yield projection of 71 tons/hectare in 2003 to 76 tones/hectare in 2004. Sugar production was decimated by the civil war, as most factories were demolished. Post-1992, actions have been taken to rehabilitate four sugar factories, namely Mafambisse and Marromeu factories, both located in the central region of the Sofala Province and Maragra and Xinavane factories in the Maputo Province. Other giant factories located in Zambezia and Sofala still lack investment and sit inoperative. The GRM hope is to bring the production of sugar back up to pre-civil war levels, increasing output and local employment.
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LABOR

18. (U) On May 5, the USG sponsored a half-day labor seminar focused on Mozambican labor law reform. The seminar, funded by USDOL and managed by the Mission, attracted over 60 participants from the private sector, the GRM, academics, unions, legal experts, and donors. The seminar was hailed as the most covered USG press event of the year in Mozambique. The seminar featured four researchers, presenting analyses on Mozambican labor law, union-based bargaining in Mozambique, and Mozambique's labor system in comparison with regional competitors. At the end of each presentation, authors suggested recommendations for reform and the audience launched into debate on various labor topics. Success of the seminar was marked by the full-day participation of Minister of Labor, Mario Lampiao Sevene, initiative of the US Ambassador to open the event and call for greater labor law liberalization to attract foreign investment and increase employment, and the event's timeliness. The seminar was held just prior to the GRM's

announcement of a team to review current legislation, set to
be amended and revised by 2005.
LA LIME